

HEADQUARTERS PERSONNEL – NASHVILLE (As of 12/31/05)

Mike Igney, Assistant Commissioner
Christina Coleman, Program Administrator
Melody Johnson, Financial Analyst
David Gaines, Financial Analyst
Christy Beadle, Financial Analyst
Jenohn Moore, Financial Analyst
Sandra Daum, Executive Secretary

APPLICATIONS

Carl Scott, CFSA, Director
Paula Miller, Administrative Services Assistant

CHECK CASHING/DEFERRED PRESENTMENT/MONEY TRANSMITTER

Bart Daughdrill, Director

EXAMINATION PERSONNEL

WEST TENNESSEE DISTRICT

Georgia Cannon, Regional Manager
Patrick Somers, Supervisor
Kamela Settles
Alisa Logan
Robert Hornbreak
Kevin Hicks
Marilyn Schroepfel, CFSA
Kerry Rial
Patrick Ryan, CFSA
Rich Regan
Calvin Stout
Joshua Evans

MIDDLE TENNESSEE DISTRICT

Chris Adams, CFSA, CFE, Regional Manager
Cathy Wilkerson, Supervisor
Gene Smith, CFSA
Robert Campbell
Michael Cranor
Robert Doyle

Michael Wiggins
Marcia Jacks
Steve West
Chad Haney

EAST TENNESSEE DISTRICT

Brian Williams, Regional Manager
Frank Barnes, CFSA, Supervisor
James Waterman
Will Justice
Keith Sharp
James Worley
Jack Lay
Elizabeth Harrell

James Simmons
John Stewart
Nicole Chamblee
David Kelly
Dennis Woodmore, CFSA

[COMPLIANCE DIVISION NARRATIVE]

The Compliance Division is responsible for the licensing and regulatory supervision of the following types of financial institutions operating in Tennessee:

- Industrial Loan & Thrift Companies
- Insurance Premium Finance Companies
- Residential Mortgage Lenders, Brokers and Servicers
- Check Cashing
- Deferred Presentment Service Companies
- Money Transmitters
- Title Pledge Lenders *

With the development of a comprehensive examination program, all of the above industries are subject to periodic examinations by the Division's field examiners. The Compliance Division's examinations are designed to test and enforce compliance with Tennessee laws, as well as Federal regulations. These laws were written in order to protect the consumer by limiting the amount of interest, loan charges and insurance charges that can be assessed to them. The field examiners also investigate consumer complaints and allegations of consumer fraud and usury.

* The Tennessee Department of Financial Institutions began regulating title pledge lenders on November 1, 2005.



MILESTONES AND ACCOMPLISHMENTS:

- In 2005, the Division more than doubled (and trained) their exam staff from 14 to 35 examiner positions decentralizing the exam function from the Nashville, Tennessee office to regional management in three grand regions (East, Middle and West). Establishing along with that, a Regional Manager and Regional Supervisor for each region. The Compliance Division is responsible for the licensing and regulatory supervision of the following types of financial institutions operating in Tennessee.
- The Mortgage Act Amendment was successfully implemented which included the registration of mortgage loan originators. This amendment gives the Department the authority to enforce responsible standards for loan originators, thereby helping to curb predatory lending concerns.

INDUSTRIAL LOAN AND THRIFT COMPANIES

Consumer loan companies operate under the Industrial Loan and Thrift Companies Act, codified as T.C.A. Title 45, Chapter 5. The stated purpose of the Act is to allow citizens to have the services of regulated lending institutions at rates and charges reasonably commensurate with economic realities. This Act authorizes those companies that obtain a certificate of registration to charge rates and fees somewhat higher than what may be charged under the State's General Usury statutes. While the Act allows higher interest rates, it also contains many consumer protection provisions particularly with respect to loan charges. Since 2001, legislation was enacted that requires companies licensed under this Act to secure bonding. The bonding requirements are as follows: If the applicant proposes to make loans secured by a mortgage, the surety bond or letter of credit shall be in the amount of \$200,000. For all other applicants, the bond or letter of credit shall be in the amount of \$50,000. Only one bond or letter of credit is required for any registrant, irrespective of the number of employees or offices of such registrant.

Registration

To obtain a certificate of registration, an applicant must maintain a net worth of at least \$25,000 for each location to be registered and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2005, there were 713 locations licensed under the Act.

Examinations

For fiscal year ending June 30, 2005, the Department conducted 627 examinations that resulted in refunds of \$432,871.91 to 10,612 consumers of the state. Special examinations are conducted as needed as a result of complaints filed with the Department's Consumer Resources Division.

INSURANCE PREMIUM FINANCE COMPANIES

The activities of Premium Finance Companies are governed by the "Premium Finance Company Act of 1980", codified as T.C.A. Title 56, Chapter 37. "Premium Finance Company" means a person engaged in the business of entering into premium finance agreements or acquiring premium finance agreements from other premium finance companies. "Premium finance agreement" means an agreement by which an insured, or prospective insured, promises to pay to a premium finance company the amount advanced, or to be advanced under the agreement to an insurer or to an insurance agent or producing agent in payment of premiums of an insurance contract, together with interest and a service charge as authorized and limited by this Chapter.

Registration

To obtain a license, an applicant must, pursuant to T.C.A. § 56-37-104(b), be competent and trustworthy, act in good faith, have a good business reputation, experience, training or education in this business. Furthermore, if the applicant is a foreign or domestic corporation, LLC, or limited partnership, it must be authorized to conduct business in this state. As of June 30, 2005, there were 65 companies licensed under the Act.

Examinations

The Department conducted 9 examinations during July, 2004 – June, 2005, representing 14 percent of the licensed offices located in Tennessee.

RESIDENTIAL MORTGAGE LENDERS, BROKERS AND SERVICERS

The activities of Residential Mortgage Lending, Brokering, and Servicing companies are governed by the "Tennessee Residential Lending, Brokerage and Servicing Act of 1988", codified as T.C.A. Title 45, Chapter 13. T.C.A. § 45-13-103(a) expands this further by stating "no person shall act as a mortgage lender, mortgage loan broker, mortgage loan servicer, or mortgage loan originator in this state without first complying with the applicable licensing or registration requirements under this chapter." Certain companies may be exempt under criteria explained in T.C.A. § 45-13-103. If the applicant proposes to make or service mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$200,000. For all applicants whose activities are limited to the brokering of mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$90,000. Only one bond or letter of credit is required for any licensee, irrespective of the number of employees or offices of such licensee.

Compliance Division

Registration

To obtain a certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2005, there were 1,349 companies licensed under the Act. Additionally, with passage of amendments to the Residential Mortgage Lending, Brokerage and Servicing Act during the 2004 session of the General Assembly, the Department began registering individual mortgage loan originators effective January 1, 2005. As of June 30, 2005, there were 11,603 mortgage loan originators actively registered.

Examinations

For fiscal year ending June 30, 2005, the **Compliance Division** conducted 238 examinations of the mortgage licensees that resulted in refunds of \$80,606.75 to 317 consumers. Special examinations are also conducted as a result of consumer complaints forwarded from the Department's Consumer Resources Division.

CHECK CASHING COMPANIES

The activities of Check Cashing Companies are governed by "The Check Cashing Act of 1997" codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 18. Retailers who cash checks incidental to their retail operations are exempt from the Act if their compensation for cashing checks does not exceed five percent of their gross receipts. See T.C.A. § 45-18-103(5).

Licensing

To obtain a check cashing license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2005, there were 404 licensed check casher locations in Tennessee.

Examinations

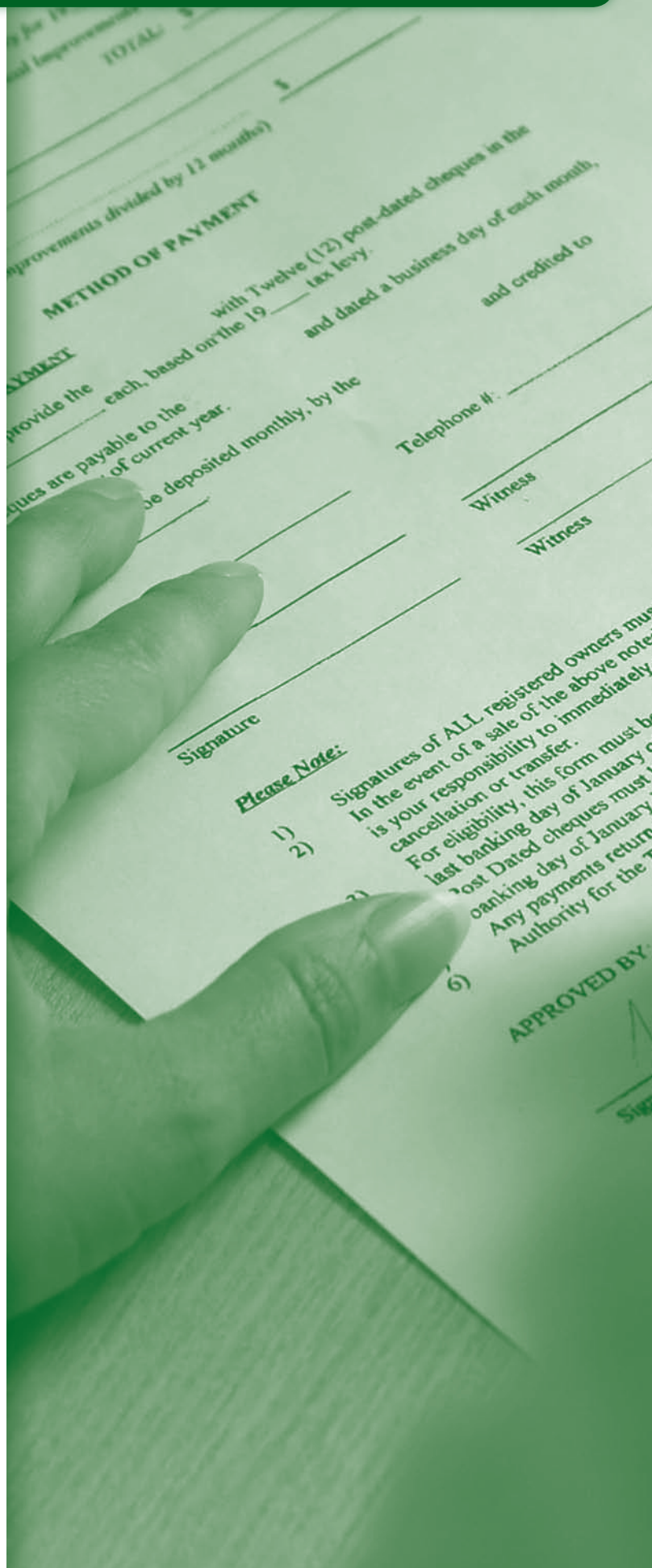
Examinations of licensed check cashers are conducted pursuant to T.C.A. § 45-18-113. For the fiscal year ending June 30, 2005, the Compliance Division of the Department performed 365 check cashing examinations resulting in refunds of \$633.29 to 42 customers.

DEFERRED PRESENTMENT SERVICE COMPANIES

The activities of the Deferred Presentment Services Companies are governed by "The Deferred Presentment Services Act" codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 17.

Licensing

To obtain a deferred presentment services license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate



sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. Last year the Department approved 167 deferred presentment services license applications, and because companies must obtain a license for each location from which such business is conducted, there were 1,219 licenses as of June 30, 2005.

Examinations

For fiscal year ending June 30, 2005, the Department's Compliance Division conducted 1,310 examinations of deferred presentment offices. Typically, the Department's compliance examiners review a random sample of the licensee's transactions by looking at the fees charged and the disclosures given to the customers. As a result, licensees made total refunds of \$41,025.41 to 539 customers for charging excessive or unauthorized fees pursuant to T.C.A. § 45-17-115.

Annual Report Information

By September 1st of each year, licensees are required by T.C.A. § 45-17-119 to file with the Commissioner of Financial Institutions an Annual Report covering the licensee's business activities as of the close of business on June 30. These reports include a balance sheet, statement of income and expense, as well as other statistical data consistent with generally accepted accounting principles. Below is a recapitulation of the 2005 annual reports for the purpose of reflecting the general results of the operations for the year ending June 30, 2005.

Annual Report Information for Fiscal Year Ending June 30, 2005

The following tabulation represents aggregate information from reports filed by 459 licensed companies. The Department did not require an annual report from companies that opened after June, 2005.

Total Assets	\$454,830,205
Total Liabilities	\$143,332,367
Net Worth	\$311,497,838

Total assets of the average sized company operating in Tennessee for 2005 was \$990,915. Sixty-eight companies reported assets greater than \$500,000; 186 companies had assets of between \$100,000 and \$500,000; and the remaining 205 showed total assets of less than \$100,000. As with many of the small companies, funding for the business is supplied principally by the owners with total assets being comprised of 32 percent liabilities and 68 percent owner equity.

Compliance Division

Statement of Income and Expenses

The following information was compiled from the statements of income and expenses for the period of July 1, 2004 to June 30, 2005.

Total Operating Income	\$159,811,292
Salary Expense	\$41,681,963
Bad Debt Expense	\$15,541,791
Net Income (After Tax)	\$17,271,738

Of the 459 reporting companies, 105 reported operating losses and 45 reported net income of over \$100,000 for the period ending June 30, 2005. The average company made a profit of \$26,053.

Salaries are a major company expense, amounting to about 26 percent of total operating income. The average salary expense for each company was \$90,810.

Losses on receivables constitute another major industry expense. Bad debt expense represented approximately 9.7 percent of total operating income.

Effective June 7, 2005, T.C.A. § 45-17-112(i) of the Deferred Presentment Services Act allows licensees to assess a handling charge not to exceed \$30 if a check is returned from a payer financial institution due to insufficient funds, stop payment order or closed account. From the 2005 annual reports, 58 percent or 267 companies collected total handling charges of \$616,950 for fiscal year ending June 30, 2005.

As of June 30, 2005, the industry made a return on assets of 3.8 percent based on total assets and a return on equity of 15.1 percent.

Transactional Data

The following transactional data was reported for the reporting period ending June 30, 2005:

Number of receivable transactions	4,634,419
Dollar amount of transactions during the year	\$ 990,947,588
Average size of receivable transactions	214

Number of transactions by size of check:

\$1 - \$150:	620,152
\$151 - \$250:	3,398,205
\$251 - \$500:	616,062

MONEY TRANSMITTERS

The activities of Money Transmitter companies are governed by "The Tennessee Money Transmitter Act of 1994", codified as T.C.A. Title 45, Chapter 7. There are exemptions that apply to certain government agencies, as well as business organizations. See T.C.A. § 45-7-204.

Licensing

Each applicant for a license must demonstrate, and each licensee must maintain, a net worth of not less than \$100,000 computed according to generally accepted accounting principles. Persons transmitting, or proposing to transmit, money shall have an additional net worth of \$25,000 per additional location or agent located in Tennessee, as applicable, to a maximum of \$500,000. The applicant must demonstrate such experience, character, and general fitness as to command the confidence of the public and warrant the belief that the business will be operated lawfully and fairly. As of June 30, 2005, there were 48 licensed money transmitters.

Examinations

Examinations of money transmitters are conducted pursuant to T.C.A. § 45-7-214. The Commissioner may accept, in lieu of an on-site examination, the examination report of an agency of another state, or a report prepared by an independent accounting firm, and reports so accepted are considered, for all purposes, as an official report of the Commissioner.

INDUSTRIAL LOAN AND THRIFT COMPANIES

Loans More Than \$300

(Year Ending December 31, 2004)

Number of Offices Included in this Report	116
Number of Employees in State at Year-End	1,084

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$426,940,447
Net Income	\$4,725,966
Rate of Return	1.11%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$65,016,077
Average Monthly Rate Collected	1.27%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	57,293
Total Expenses	\$55,669,532
Average Monthly Expense per Account	\$80.97

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$71,185,680
Total Expenses before Income Taxes	\$55,669,532
Income before Taxes	\$15,516,148

OTHER INFORMATION

Number of Loans Made During the Year	704,095
Dollar Volume of Loans Made During the Year	2,073,619,846
Bad Debts- Dollar Amount	19,529,924
Bad Debts- Number of Accounts	5,405

INDUSTRIAL LOAN AND THRIFT COMPANIES

Loans Less Than \$300

(Year Ending December 31, 2004)

Number of Offices Included in this Report	553
Number of Employees in State at Year-End	2,128

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$2,966,582,170
Net Income	\$29,406,403
Rate of Return	0.99%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$484,913,397
Average Monthly Rate Collected	1.36%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	450,641
Total Expenses	\$466,955,566
Average Monthly Expense Per Account	\$86.35

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$505,650,824
Total Expenses Before Income Taxes	\$466,955,566
Income Before Taxes	\$38,894,677

OTHER INFORMATION

Number of Loans Made During the Year	179,657
Dollar Volume of Loans Made During the Year	\$45,705,265
Bad Debts- Dollar Amount	\$144,576,499
Bad Debts- Number of Accounts	\$65,204

INDUSTRIAL LOAN AND THRIFT COMPANIES Composite Annual Report (Year Ending December 31, 2004)

Number of Offices Included in this Report	669
Number of Employees in State at Year-End	3,212

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$3,393,522,617.85
Net Income	\$34,132,369.74
Rate of Return	1.01%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$549,929,474.07
Average Monthly Rate Collected	1.35%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	507,934
Total Expenses	\$522,625,097
Average Monthly Expense Per Account	\$85.74

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$576,836,504
Total Expenses Before Income Taxes	\$522,625,097
Income Before Taxes	\$54,410,825

OTHER INFORMATION

Number of Loans Made During the Year	883,752
Dollar Volume of Loans Made During the Year	\$2,119,325,111
Bad Debts- Dollar Amount	\$162,971,877
Bad Debts- Number of Accounts	69,972